

List of Abbreviations

ABA--American Bankers Association	FSA--Farm Service Agency
AHP--Affordable Housing Program	Ginnie Mae--Government National Mortgage Association
ARM--Adjustable rate mortgage	GSE--Government-sponsored enterprise
CBO--Congressional Budget Office	HUD--U.S. Department of Housing and Urban Development
CCC--Commodity Credit Corporation	LARS--Loan Account Reporting System
CDC--Community development corporation	HMDA--Home Mortgage Disclosure Act
CDFI--Community development financial institution	MBHC--Multibank holding company
CFFR--Consolidated Federal Funds Reports	MSA--Metropolitan statistical area
CIP--Community Investment Program	NFIB--National Federation of Independent Business
CRA--Community Reinvestment Act	NSSBF--National Survey of Small Business Finance
EDA--Economic Development Administration	OFHEO--Office of Federal Housing Enterprise Oversight
EPA--Environmental Protection Agency	OFI--Other financial institutions (eligible to borrow wholesale funds from FCS)
ERS--Economic Research Service	PSA--Public Securities Association
Fannie Mae--Federal National Mortgage Association	RHS--Rural Housing Service
Farmer Mac--Federal Agricultural Mortgage Corporation	RLF--Revolving loan fund
FCA--Farm Credit Administration	RUS--Rural Utilities Service
FCB--Farm Credit Bank	S&L--Savings and loan association
FCIF--Farm Credit Insurance Fund	SBA--U.S. Small Business Administration
FCS--Farm Credit System	SBIC--Small Business Investment Corporation
FCSIC--Farm Credit System Insurance Corporation	SBP--Seasonal Borrowing Program
FDIC--Federal Deposit Insurance Corporation	STBL--Survey of Terms of Bank Lending
FHA--Federal Housing Administration	USDA--U.S. Department of Agriculture
FHFB--Federal Housing Finance Board	
FHLB--Federal Home Loan Bank	
FHLBS--Federal Home Loan Bank System	
Freddie Mac--Federal Home Loan Mortgage Corporation	

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Abstract

In response to a mandate in the Federal Agriculture Improvement and Reform Act of 1996, this report provides information on the major financial institutions and Federal programs active in rural America, the performance of rural financial markets, and the costs and benefits of proposals to expand the lending authority of the Farm Credit System (FCS) and commercial bank access to FCS funds. After examining available data on agricultural, housing, small business, and community development loans, lenders, and programs, this report concludes that rural financial markets work reasonably well in serving the financial needs of these sectors of the rural economy. While localized financial market problems exist in some rural communities, and not all segments of the rural economy are equally well served, financial market failures are neither endemic to nor epidemic in rural America. Therefore, policies which provide untargeted subsidies to a broad range of rural lenders or borrowers—such as those examined in this report—are unlikely to be cost effective. While the proposals we examined to expand FCS lending authority and bank access to FCS funds would benefit their sponsors and some rural communities, they would do little to address rural credit market imperfections and, at the national level, their associated costs would outweigh their benefits.

Keywords: Agricultural credit, rural credit, agricultural banks, Farm Credit System, Federal credit policy, economic development, rural development.

Preface and Acknowledgments

Section 650 of the Federal Agriculture Improvement and Reform Act of 1996 instructed the USDA to complete a study of the demand for and availability of credit in rural areas for agriculture, rural housing, and rural development for the purpose of ensuring that Congress had current and comprehensive information as it deliberates on the credit needs of rural America. In addition to this broad charge, the 1996 Act included a number of specific questions on rural lenders, demand for credit, and the advantages and disadvantages of proposed policy changes under consideration. In responding to this request, the executive summary provides short answers to the specific questions included in the 1996 Act, the main body of the report provides an overview addressing the broad concerns raised by Congress, and the appendices provide the comprehensive information we've assembled.

The Economic Research Service (ERS) was given the responsibility of drafting this report, with assistance from the Office of Policy and Planning in USDA's Rural Development mission area. Among other sources, the 1996 Act specifically requested that data and information obtained by the President's 1995 interagency task force on rural credit be used. To fully comply with this request, not only were the available files from the 1995 task force examined, but an interagency advisory panel representing many of the organizations involved in the 1995 effort was assembled to provide input on the 1996 study. The outside agencies represented on the advisory panel, and each agency's primary representative, are:

Council of Economic Advisers	Dave Sunding
Farm Credit Administration	Robert Andros
Federal Housing Finance Board	Joseph McKenzie
Office of Management and Budget	Mark Weatherly
U.S. Department of the Treasury	Gordon Eastburn
U.S. Small Business Administration	Charles Thomas

Within USDA, the following agencies were represented:

Farm Service Agency	James Radintz
Office of Budget and Program Analysis	John Subat
Office of the Chief Economist	Joseph Glauber
Office of the Secretary	Eric Olsen

The advisory panel provided input on the study's design and comments on the interim and final drafts of the report. In addition, data were provided by the Farm Credit Administration, the Federal Housing Finance Board, the Federal Reserve Board of Governors, the Small Business Administration, and USDA's Farm Service Agency.

Within ERS, Robert Collender and Patrick Sullivan developed the study plan and coordinated the data collection, research, and drafting of the report. James Newby and Robert Ross represented the Rural Development mission area, providing guidance on the study's design, the advisory panel structure, and various drafts of the report. Due to the comprehensive nature of the Congressional request, a team of researchers, editors, and reviewers was assembled in ERS to complete the study. In alphabetical order, the following provided research support: Faqir Bagi produced the tables on Federal credit and credit-related program outlays; Robert Collender was responsible for assessing the

policy proposals examined in this report and for drafting Appendix C; Ted Covey assembled FCS and bank interest rates on agricultural loans; Charles Dodson analyzed agricultural credit markets; Linda Ghelfi provided data on, and analysis of, rural socioeconomic conditions and trends; Michelle Huffman analyzed rural small business credit markets; Steven Koenig provided information on Farmer Mac, Government-sponsored enterprise reporting requirements, and agricultural credit markets; James Mikesell analyzed rural home mortgage markets, Daniel Milkove assembled and analyzed data on a wide range of rural lenders; Richard Reeder examined the financial markets serving rural governments and community organizations; Jerome Stam drafted Appendix A on rural lenders; and George Wallace analyzed interest rates on SBA-guaranteed business loans.

Editorial and graphics support was provided by the following ERS staff: Thomas McDonald and Dale Simms edited the report and were responsible for producing the camera copy; Susan DeGeorge and Victor Phillips designed the covers for the published report and the Congressional report, respectively; Samuel Calhoun produced the report's maps and charts; and Anika Copeland oversaw the Departmental clearance process. In addition to the advisory panel members and those involved in drafting the report, valuable comments were provided by Stephen Hiemstra of the Office of the Comptroller of the Currency; Milton Ericksen, Patrick O'Brien, and Susan Offutt of ERS; and Nicholas Walraven of the Federal Reserve Board of Governors.

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